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STATE FOR EEB/IFD/OMA, EEB/EPPD, AND NEA/MAG  
STATE PASS USTR (BURKHEAD) AND USAID (MCCLOUD)  
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SUBJECT: PROGRESS ON TUNISIA'S OPENING TO FOREIGN FRANCHISES

REF: TUNIS 608

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Summary  
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¶1. (SBU) According to the Ministry of Commerce, the Government of Tunisia (GOT) plans to issue the implementation decree for an August 2009 law governing franchises in February 2010 -- a decree that will allow international franchises to operate under Tunisian law. In addition, a Central Bank representative who spoke at the GOT-organized Tunis Med Franchise Show said royalty repatriation would be permitted for any franchise receiving Ministry of Commerce approval to operate. The Ministry of Commerce, in essence, will treat an international franchise just like any other foreign direct investment for the onshore sector.

¶2. (SBU) Coinciding with the first-ever show on Franchising in Tunisia, held December 10-12, the Embassy hosted the visit of international franchising expert Bachir Mihoubi. He led two workshops at the Franchise Show, met with the Ministry of Commerce team drafting new franchise regulations, spoke at a Tunisian-American Chamber of Commerce luncheon, did press interviews, and met with lenders and members of entrepreneurship organizations. Based on information gleaned during Mihoubi's visit, we believe the future for international franchises in Tunisia is looking brighter. End summary.

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United States at Center of Franchising Discussion  
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¶3. (SBU) On December 8-12, the Embassy hosted the visit of American franchising expert Bachir Mihoubi, whose travel was funded by the Commercial Law Development Program (Department of Commerce). Mihoubi led two workshops at the GOT-organized Tunis-Med Franchise Show, the first-ever franchising show in Tunisia (reftel). In addition, the Ambassador attended the opening of the show and was asked to step up on stage with the Secretary of State for the Ministry of Commerce and the head of UTICA, the powerful Tunisian employers' association. During his visit, Mihoubi also offered advice to the team at the Ministry of Commerce responsible for drafting the implementation decree of the new law governing franchises, spoke at a luncheon with the Tunisian-American Chamber of Commerce (TACC), and met with entrepreneurship organizations

and a representative from the GOT-affiliated Bank for Small and Medium Enterprises. With the exception of the small entrepreneurs' lunch, all events were actively covered by the local media and garnered positive coverage of the franchising issue.

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#### GOT Pushing Franchises, Private Sector Has Some Doubts

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¶4. (SBU) The GOT has said it wants to promote franchising as a development tool. A letter by President Ben Ali, read at the show's inauguration, reiterated this GOT policy, although it did not specify whether international (and not just Tunisian) franchises were included. The Secretary of State for Foreign Trade in the Ministry of Commerce Chokri Mamojhli said during opening remarks that it was important to keep Tunisia's interests in mind above all. Noting the U.S. Ambassador's presence, Mamojhli also called for the signing of a U.S.-Tunisia free trade agreement. In his speech, Hedi Djelani, the head of UTICA (employers' association) called for the "internationalization" of the Tunisian economy through franchises. Privately, he also told EconOff that our "Gulf friends" (who are investing hundreds of millions in real estate projects in Tunisia) wanted American franchises here in Tunisia.

¶5. (SBU) The 2009 Tunis-Med Franchise Show, the first of its kind in Tunisia, was very well attended. It featured over 45 booths, with 70 percent Tunisian franchisors and 30 percent foreign franchisors, including a U.S. company, Curves International, which licenses health clubs. Also in attendance (but without a booth) were the owners of the

master franchise for Century 21 (for Algeria, Tunisia and Libya), who have already submitted their documents to the MOC for approval to operate and are awaiting an answer. The show's organizer, the GOT-affiliated Tunis Chamber of Commerce and Industry, invited Embassy representatives and Mihoubi to a dinner the first night of the show, which allowed EconOff to canvas some participants on their expectations for the new law. The general trend was optimism, but many franchisors (and Tunisian potential franchisees present) were unclear on whether the implementation decree would restrict the operation of a franchise only to Tunisian companies, and whether royalty repatriation would be an issue.

¶6. (SBU) Some Tunisian businessmen present said they already operated franchises "under the radar" by signing both a distribution contract (which allows them to repatriate profits) and a franchising contract with a foreign company. To pay royalties, they then take the money from the profits and only register the distribution contract with the Ministry of Commerce. We also learned that one U.S. franchise, Dale Carnegie International, is already operating in Tunisia, though we were unable to learn the details of their royalty repatriation structure.

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#### Details on Implementation and a Key Clarification on Royalties

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¶7. (SBU) On December 12, Emboff and Mihoubi met with the team in the Ministry of Commerce responsible for drafting the implementation decree, a document the private sector is looking to clarify Tunisia's opening to franchises. Thanks to Mihoubi's legal background, the nearly two-hour meeting turned into a question-and-answer session about worldwide franchising regulation. The MOC officials admitted they were nervous about the "unequal" relationship between franchisor and franchisee and foreign brands "invading" Tunisia, although they asked about other countries' incentives to attract investment by foreign franchisors. The MOC is basing the implementation decree on European legislation, and is thinking of using Saudi model franchising contracts. Mihoubi cautioned them against over-regulating, especially in such a small market as Tunisia, as it would turn investors away.

The Ministry team asked to follow up with Mihoubi for comment on the actual decree language, which is due out in February 2010. They also specified that the law would be applicable for both international and national franchises.

18. (SBU) A Central Bank representative who spoke at the Show said royalty repatriation would be permitted for any franchise approved by the Ministry of Commerce. In practice, this means that any international franchise will have to go through the same steps as any other foreign investment in Tunisia (except for export-only companies) -- registration through the Ministry of Commerce and other GOT agencies. If the investment is approved, according to the Central Bank, authorization for royalty repatriation will just be a formality.

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Engagement with Entrepreneurs and Banking Sector  
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19. (SBU) As part of the Cairo Initiative, the Embassy organized a small lunch between Mr. Mihoubi, a representative of the Center for Young Entrepreneurs (CJD), a member of the National Chamber of Women Entrepreneurs (CNFCE) and the Bank for Small and Medium-Enterprises (BFMPE). The discussion centered on the basics of franchising. The BFMPE representative noted they had already made the decision to direct some lending to franchises, since financing them is less risky than regular start-ups. The CJD is planning a workshop event on franchises in the near future, and asked for Embassy assistance in providing materials. The CNFCE representative, herself a business owner, was interested in franchising her chain of rug shops. All remained hopeful the decree would clarify whether international franchises were allowed and if royalty repatriation would be permitted.

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Comment  
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110. (SBU) Mihoubi's ability to connect with the Tunisian audience helped drive home the U.S. message that bringing international franchises to Tunisia will create jobs, stimulate technology transfer, and help cement a culture of franchising in which eventually Tunisian companies could themselves become franchisors. The warm reception by both the Ministry of Commerce and the Tunis Chamber of Commerce and Industry contrasts heavily with the radio silence the Embassy has often received from other parts of the Tunisian government in broaching the subject. It was apparent there is lack of detailed knowledge about franchising legislation within the Ministry of Commerce, although we provided them with model legislation text and food for thought on the issue. The information we gleaned on the implementation decree and the royalty issue bodes well for international franchises seeking to operate in Tunisia. Although international franchises will still have to be approved by the Ministry of Commerce, the future is looking much brighter. When the implementation decree comes in February, we will have a clearer picture of the details. End comment.  
GRAY